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NABE Industry Survey

October, 1989

This analysis presents the results of the latest survey of business conditions reported by members of the National Association of Business Economists at their individual companies. The survey was taken in mid-September, 1989 and is being reported in October 1989. The Industrial Outlook Survey is one of three regular inquiries taken by NABE; the other two are the Policy Survey and the Macroeconomic Forecast Survey.

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Current Highlights

* Demand growth remains positive and even picked up slightly during the third quarter, but a decelerating trend has been in place since mid 1987. Goods producers have seen the most pronounced slowing over the last two years.

* Capital Spending is still showing solid growth, but there has been a fairly sharp deceleration over the past two quarters.

* Employment growth has all but stopped.

* Export growth slipped a little but remains strong.

* Inflationary pressures eased dramatically during Q3. Both prices charged and materials costs slowed sharply. Shortages are less of a problem.

* Profit margins are falling especially among goods producers.

* Forty percent of responding members report that 1989 Sales and Profits are running below plan year-to-date. A majority, however, are enjoying on or above plan performance.

* Looking ahead to 1990 most firms are making plans based upon what might be called a bumpy landing, but no crash. A significant minority are even more sanguine.

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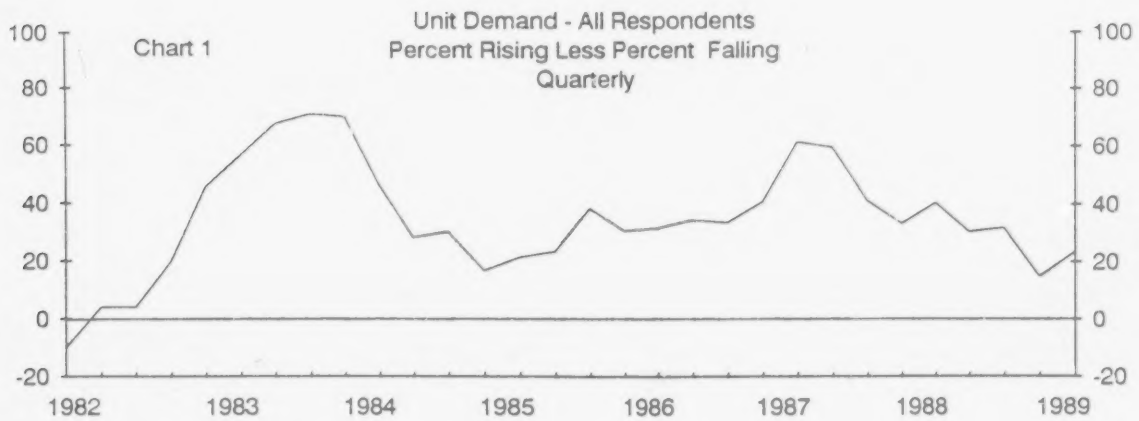
Unit Demand

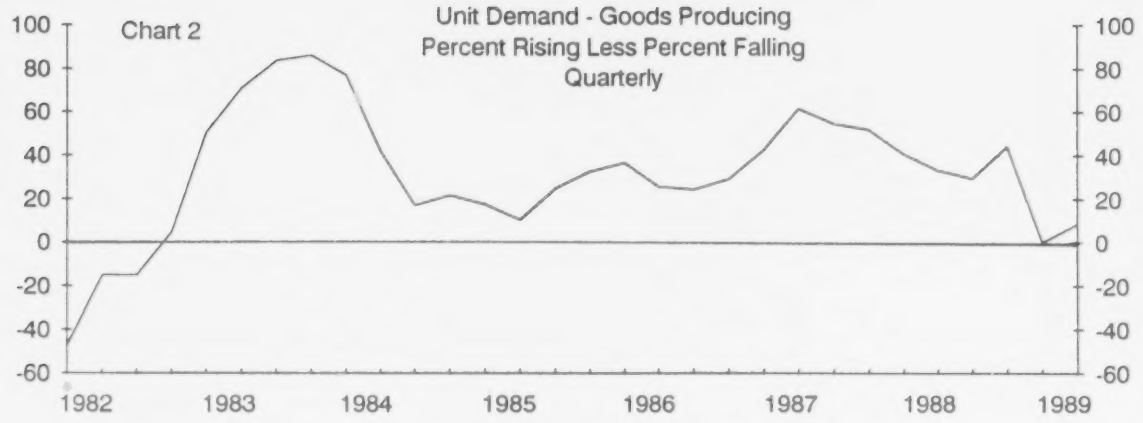
Demand continued to rise in the third quarter, and the pace quickened a bit compared with the previous period. Of all respondents, 41.9% reported rising unit demand, up from 41.0% last time. Demand fell at 18.5% of our panelists' firms, down from 26.2% in Q2. The Net Rising Index (percent rising minus percent falling) improved to 23.4% from 14.8%. Chart 1 reveals that while unit demand growth remains positive it has been irregularly decelerating since mid-1987. The net rising measure is now at about the same level as it was during the 1985 slowdown.

Once again there were significant differences among the sectors. Goods producing industries (manufacturing, mining, forestry and construction) enjoyed a slight pick-up in demand growth during the past three months (see Chart 2), but remain the least dynamic among the major sectors. The Net Rising Index rose to 8.7% from zero in Q2. The biggest improvement occurred in the transportation, utilities and communications sector (TUC) where the Net Rising Index nearly doubled to 42.3% from 21.4% in the previous survey.

	Percent of Total Sample Reporting that Demand is:			Net
Survey Month	Rising	Staying the Same	Falling	Rising
Sep. '89	41.9%	39.5%	18.5%	23.4%
Jun. '89	41.0	32.8	26.2	14.8
Mar. '89	50.0	31.7	18.3	31.7

	Percent Reporting that Demand is:			Net
Sector	Rising	Staying the Same	Falling	Rising
Total	41.9%	39.5%	18.5%	23.4%
Goods-Producing	37.0	34.8	28.3	8.7
TUC	53.8	34.6	11.5	42.3
Financial Serv.	32.4	58.8	8.8	23.5

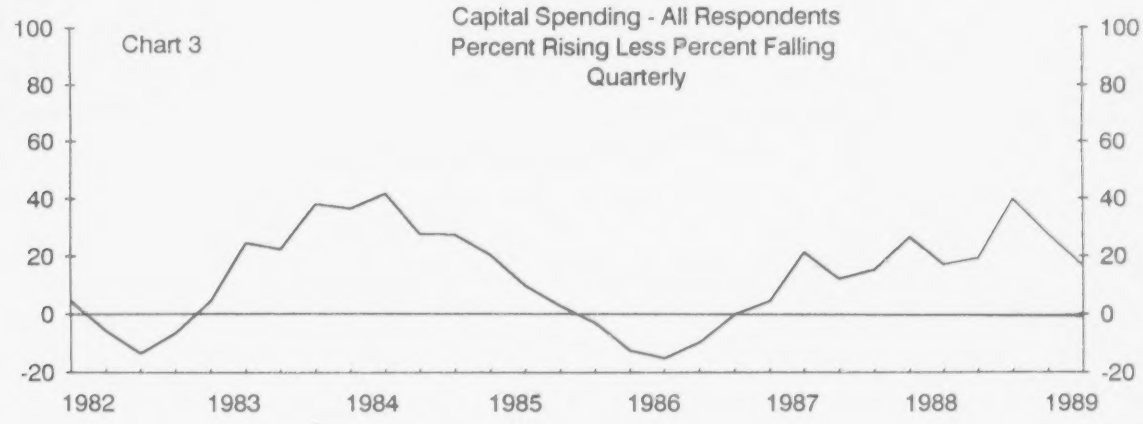




Capital Spending

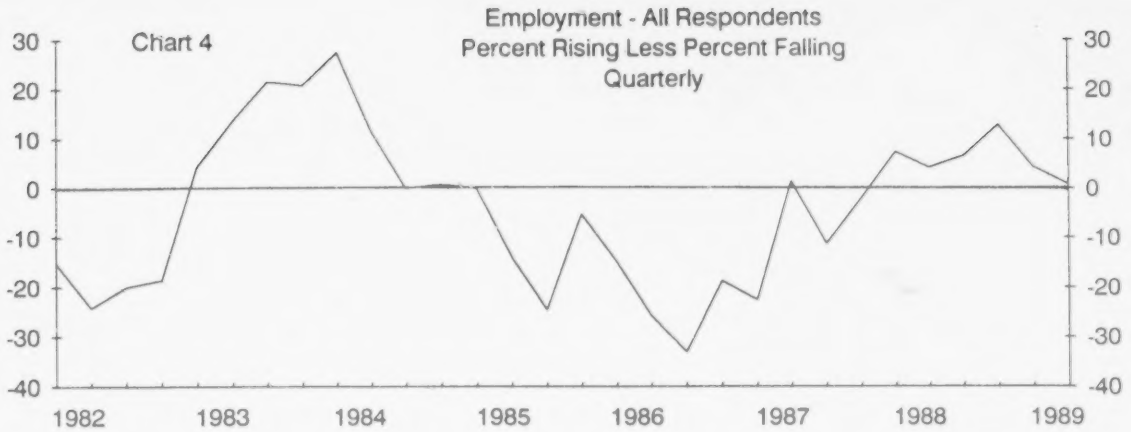
Capital spending has slowed significantly for two consecutive quarters, but it remains a solid positive force in the current expansion. One-third of all respondents reported increased expenditures while 16.7% said spending was down. Half said that their capital spending stayed about the same. Given the rapid increases over several prior periods this implies the maintenance of spending at relatively high levels. While the Net Rising Index was off for the second quarter in a row, it stayed well into the positive range. See Chart 3. In the goods producing sector the Net Rising Index rose slightly to 26.2% from 24.4% in the second Quarter.

	Percent Reporting that Real Capital Spending is:			Net
Survey Month	Rising	Staying the Same	Falling	Rising
Sep. '89	33.3%	50.0%	16.7%	16.7%
Jun. '89	34.9	57.8	7.3	27.5
Mar. '89	47.8	44.2	8.0	39.8



Employment

Employment flattened out during the third quarter. Nearly as many firms reported falling employment (18.7%) as rising employment (19.5%). Most companies (61.8%) are still reporting stable employment levels. The Net Rising Index (percent rising minus percent falling) dropped to 0.8%. See Chart 4.



Inventories

Satisfaction with current inventory levels took a twelve point jump in the latest survey. Of all our respondents 68.4% said that stock levels were "about right". This compares with 56.7% in the previous survey. The other 31.6% who were not happy with current levels split as follows. Almost 23% said stocks were too high while 9% said they were too low. Chart 5 shows that goods producers slipped into a slight inventory reduction mode during the past quarter as the Net Rising Index fell to -2.4%. Overall, inventory policies and stock levels themselves remain quite stable.

Export Performance

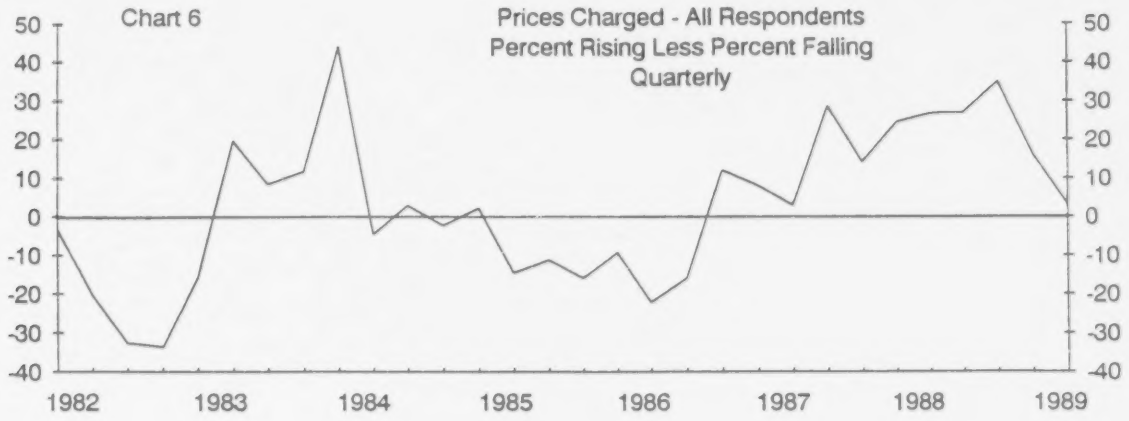
Export growth eased slightly during the last 3 months but remained a clear source of economic strength. Those reporting rising export volumes still out-number those reporting declining export business by 5 to 1.

Survey Month	Percentage of Exporters Whose Exports are: Rising	Staying the Same	Falling	Net Rising
Sep. '89	44.4%	46.7%	8.9%	35.6%
Jun. '89	52.1	33.3	14.6	37.5
Mar. '89	62.0	30.0	8.0	54.0

Prices and Costs

The inflation picture has improved markedly over the last two surveys. Prices charged by our respondents' companies decelerated sharply in the third quarter. The net rising percent plunged to only 3.3%, its lowest level in two years. See Chart 6. The percent of panelists reporting rising prices (19.5%) was the lowest in almost three years. In the goods producing sector more than one-quarter of the sample said prices were falling.

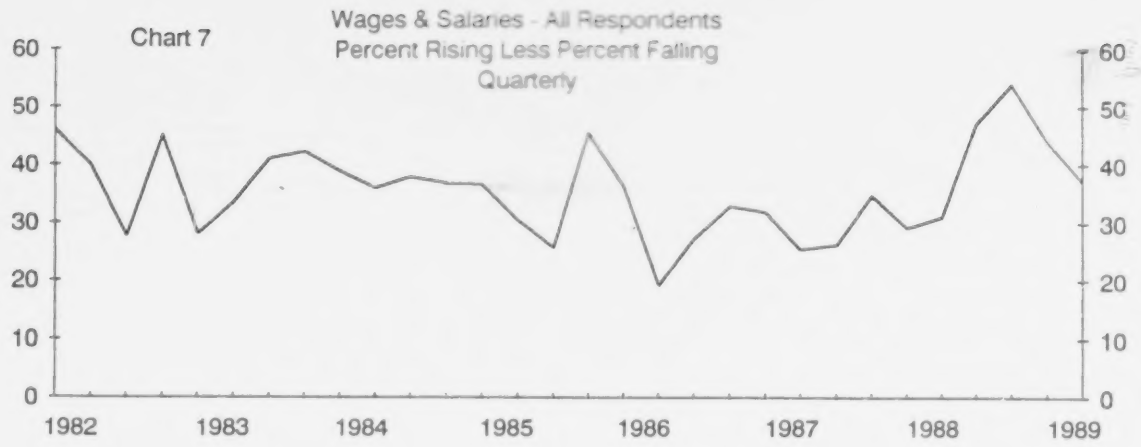
Survey Month	Percentage Reporting Their Prices are: Increasing	Unchanged	Falling	Net Rising
Sep. '89	19.5%	64.2%	16.3%	3.3%
Jun. '89	31.6	53.0	15.4	16.2
Mar. '89	46.0	42.9	11.1	34.9



Cost inflation also slowed dramatically during the past three months. Only 39% of our survey sample reported rising prices of input materials, down sharply from 60% last quarter. The Net Rising Index fell nearly 30 points. It is worth noting that in the Manufacturing sector more than one-quarter of our panelists are now reporting declining materials prices. The Net Rising Index for manufacturers materials costs has plunged from 88% in Q1 to only 3% in Q3. Wages and salaries also rose less aggressively during Q3. The Net Rising Index fell another 7 points to 37.2% See Chart 7.

Survey Month	Percent Reporting that Material Costs are: Rising	Unchanged	Falling	Net Rising
Sep. '89	38.8%	45.0%	16.3%	22.5%
Jun. '89	60.0	30.6	9.4	50.6
Mar. '89	71.3	26.4	2.3	69.0

Survey Month	Percent Reporting Wages & Salaries: Rising	Unchanged	Falling	Net Rising
Sep. '89	39.7%	57.9%	2.5%	37.2%
Jun. '89	44.9	54.2	0.8	44.1
Mar. '89	55.7	42.6	1.6	54.1



Shortages

Another sign of a cooling economy -- 62% of respondents reported no shortages of factor inputs last period. This was the highest "no shortage" reading in over a year. Skilled labor continues to be the most often mentioned problem.

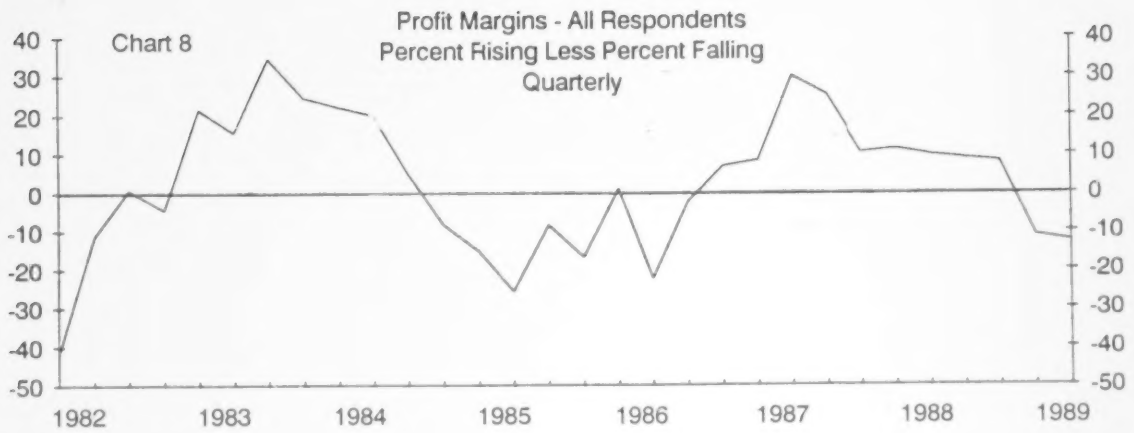
	Percent Reporting Shortages in Survey Month:			
Type of input	Dec.	Mar.	Jun.	Sep.
Skilled Labor	28.4%	31.0%	27.1%	27.9%
Unskilled Labor	12.1	9.7	13.1	7.2
Intermediate Inputs	13.8	12.4	10.3	6.3
Raw Material Inputs	8.6	9.7	5.6	7.2
Capital Goods	4.3	2.7	4.7	1.8
No Shortages	50.9	52.2	59.8	62.2

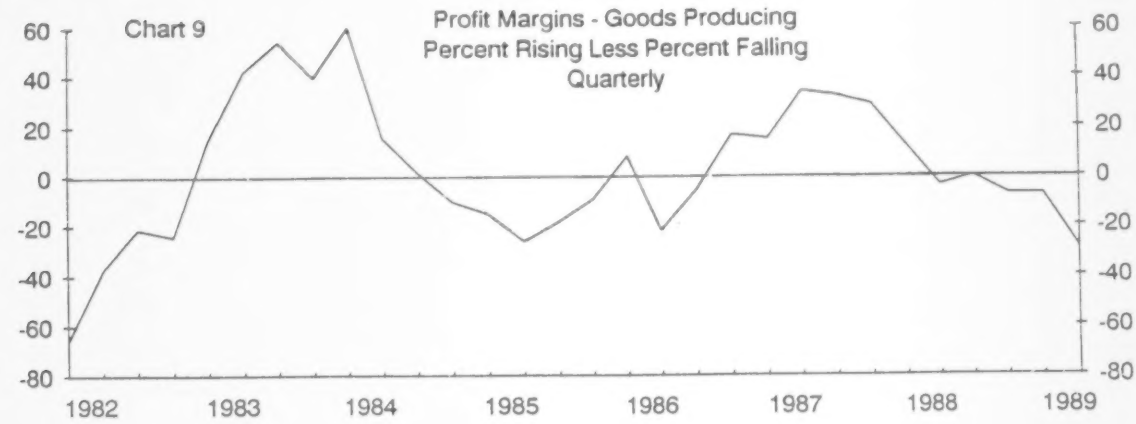
Profits

Profit margins fell again during Q3. See Chart 8. While the drop for the total sample was about at the same pace as the previous quarter, there were some major changes among the key sectors. The goods producing sector took the biggest hit. Nearly half of the respondents reported falling profit margins, and the Net Rising Index fell to -28.9% from -7.3% last June. See Chart 9. The other two sectors showed some improvement.

	Percent of all Respondents Reporting that Margins are:			Net
Survey Month	Rising	Unchanged	Falling	Rising
Sep. '89	23.5%	40.3%	36.1%	-12.6%
Jun. '89	23.1	42.7	34.2	-11.1
Mar. '89	31.1	45.9	23.0	8.2

	Percent Reporting that Profit Margins are:			Net
Sector	Rising	Unchanged	Falling	Rising
Total	23.5%	40.3%	36.1%	-12.6%
Goods-Producing	17.8	35.6	46.7	-28.9
TUC	21.7	56.5	21.7	-0-
Financial Serv.	27.3	39.4	33.3	-6.1





Special Questions

Competitiveness: This year's rise in the dollar's value has had little impact on our members' firms' ability to compete in global markets. Surprisingly, nearly half of all respondents said that their firms don't face international competition at home or abroad. Of those who do face such competition, nearly half (47%) reported that the dollar's rise has had little noticeable impact on their ability to compete. An additional 35% said that while it has had some effect, their firms remain competitive. Thirteen percent reported increased foreign competition in domestic markets, and only 5% said that it had significantly reduced their firm's ability to export.

Performance against expectations: In this survey we asked how our panelists' firms' sales and profits were performing so far in 1989 relative to earlier targets such as financial plans or budgets. While the majority of firms, roughly 60%, are reporting both sales and profits either on or above "budget" there is a significant minority, roughly 40%, reporting sales and profits below expectations. The results for all respondents appear in the following table. There were not significant differences among the key sectors.

1989 Year-to-date Performance vs "Budget"	Sales	Profits
Significantly above	5.0%	5.9%
Above	28.1%	19.3%
Equal to	28.1%	34.5%
Below	32.2%	35.3%
Significantly below	6.6%	5.0%

1990 Planning Scenario: We also asked what economic scenario firms were using to plan for 1990. The choices ranged from severe recession to above trend real growth. As it turns out, there were no votes for either extreme. Among the remaining choices the outlooks ranked as follows:

	Cont. Moderate Growth	Brief Slowdown/ Resume Normal Growth	Prolonged Period of Sluggish Growth	Mild Recession
Total	15.4%	30.9%	41.5%	12.2%
Goods Producing	8.9	33.3	46.7	11.1
TUC	28.0	40.0	32.0	-0-
Financial Services	8.6	28.6	45.7	17.1

The transportation, Utilities and Communications sector came across as somewhat more optimistic than the other major sectors. Beyond that there were few significant differences. These results appear generally consistent with the latest NABE Macroeconomic Forecast Survey the results of which were presented at the Annual Meeting in San Francisco.

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A6650-4

NABE Industry Survey

January, 1990

This report presents the responses to NABE's latest business conditions survey conducted in December. This survey is one of three taken by NABE; the other inquiries are the NABE Outlook and the NABE Policy Survey. For NABE membership information contact the address below.

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Highlights

* Total demand is still growing, but it remains on a decelerating trend that is now more than two years old.

* Demand fell in the goods-producing sector for the first time since late 1982.

* Capital spending and exports remain positive growth forces in an otherwise sluggish economy. Export growth accelerated in Q4.

* Inventory levels are currently not a source of economic instability.

* Inflationary pressures continued to abate during Q4, but at a much slower pace than in the two preceding surveys.

* Profit margins were still falling at an accelerating rate in the final months of 1989. Goods producers were especially hard hit.

* Financial planning for 1990 is based on an economic scenario of sluggish to moderate growth at an overwhelming majority of reporting firms. Only 12% foresee any kind of recession at all.

* Most companies are planning for higher sales this year, but their numbers are a bit smaller than a year ago. Most are also expecting higher profits, but stable to lower employment.

* More than half of the goods producers are planning to boost capital spending once again in 1990.

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Unit Demand

Demand continued to rise in the fourth quarter, but the slowing tendency resumed, and the Net Rising Index sank to its lowest level since the fourth quarter of 1982. Of all respondents, 39.8% reported rising unit demand, down from 41.9% last time. Demand fell at 27.3% of our panelists' firms, up from 18.5% in Q3. The Net Rising Index (percent rising minus percent falling) fell to 12.5% from 23.4%. Chart 1 reveals that while unit demand growth remains positive it has been irregularly decelerating since mid-1987. The net rising measure is now slightly below levels reached during the 1985 slowdown.

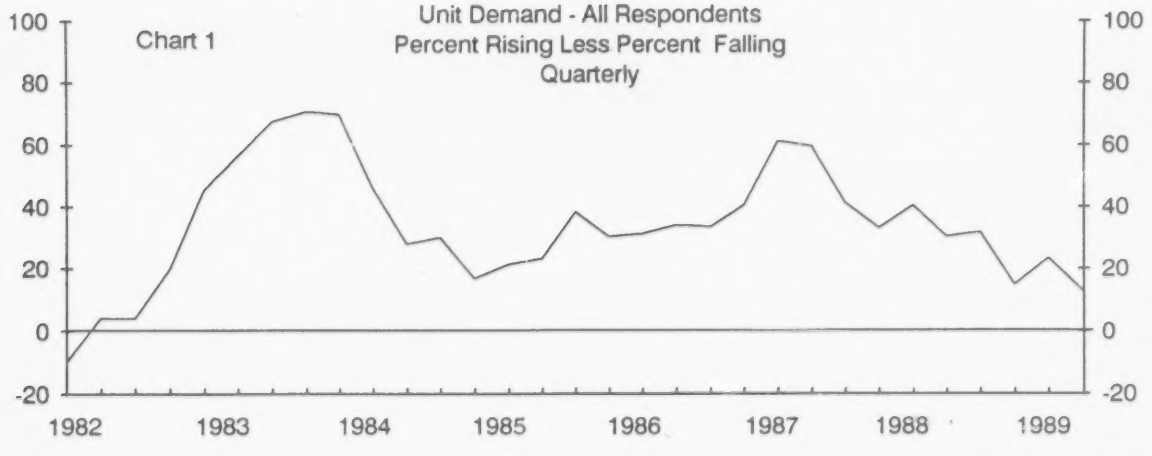
Demand growth deteriorated across all industry sectors during the final period of 1989. Goods producers suffered the biggest drop. This sector, which includes the manufacturing, mining, forestry and construction industries, saw unit demand decline from the previous quarter for the first time since Q4, 1982. The Net Rising Index dropped more than 18 percentage points from 8.7% to -9.5%. (See Chart 2). The transportation, utilities, communications sector (TUC) continued to enjoy the strongest performance. Unit demand is still growing at more than half of the firms reporting from these industries.

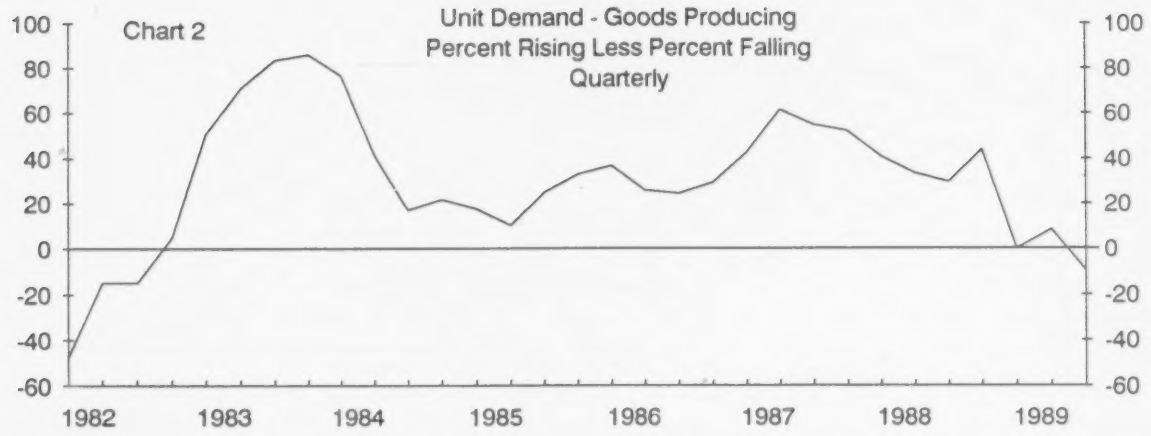
Percent of Total Sample Reporting that Demand is:

Survey Month	Rising	Staying the Same	Falling	Net Rising
Dec. '89	39.8%	32.8%	27.3%	12.5%
Sep. '89	41.9	39.5	18.5	23.4
Jun. '89	41.0	32.8	26.2	14.8

Percent Reporting that Demand is:

Sector	Rising	Staying the Same	Falling	Net Rising
Total	39.8%	32.8%	27.3%	12.5%
Goods-Producing	26.2	38.1	35.7	-9.5
TUC	51.6	32.3	16.1	35.5
Financial Services	35.8	41.2	23.5	11.8



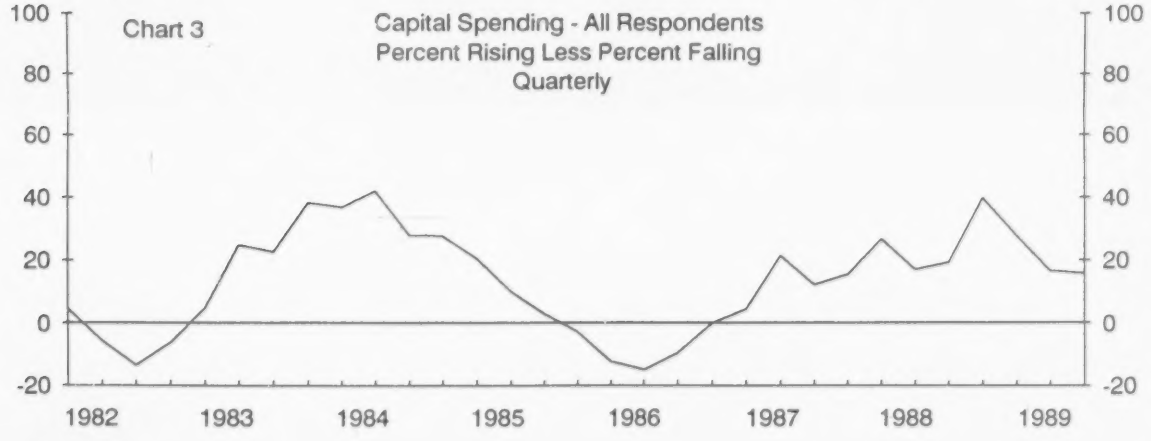


Capital Spending

While capital spending growth has dropped back from its spike in Q1 of 1989, it appears to be maintaining a steady, positive rate of expansion. Nearly one-third of all respondents reported increased expenditures while 16.4% said spending was down. More than half said that their capital spending stayed about the same. Given the rapid increases over several prior periods this implies the maintenance of spending at relatively high levels. While the Net Rising Index was off slightly, it stayed within a range it has maintained since mid-1987. See Chart 3. In the goods producing sector the Net Rising Index fell slightly to 24.4% from 26.2% in the third Quarter. It should be noted that nearly half (48.6%) of our manufacturing members are still reporting rising capital spending.

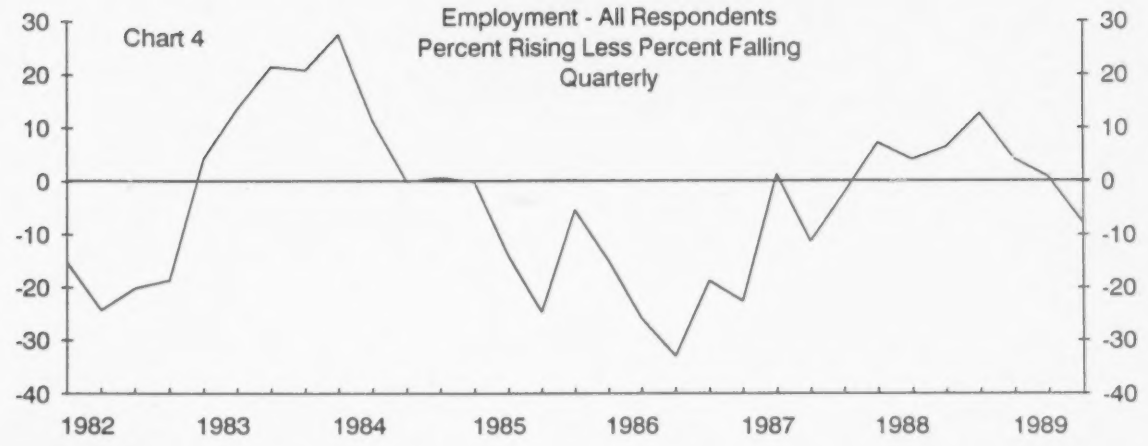
Percent Reporting that Real Capital Spending is:

Survey Month	Rising	Staying the Same	Falling	Net Rising
Dec. '89	32.0%	51.6%	16.4%	15.6%
Sep. '89	33.3	50.0	16.7	16.7
Jun. '89	34.9	57.8	7.3	27.5



Employment

Employment declined during the fourth quarter. For the first time since early 1988 more firms reported falling employment (28.7%) than rising employment (20.9%). Most companies (50.4%) are still reporting stable employment levels. The Net Rising Index (percent rising minus percent falling) dropped to -7.8%. See Chart 4.



Inventories

Satisfaction with current inventory levels slipped a bit in the fourth quarter. Of all our respondents 58.2% said that stock levels were "about right". This compares with 68.4% in the previous survey. The other 41.8%, who were not happy with current levels, split as follows: almost 31% said stocks were too high while 11% said they were too low. Chart 5 shows that goods producers reverted to a very slight inventory building mode during the past quarter as the Net Rising Index rose to 2.7%. Overall, inventory policies and stock levels themselves remain quite stable.

Export Performance

Export growth accelerated during the last 3 months. It remains a clear source of economic strength. Those reporting rising export volumes out-number those reporting declining export business by well over 4 to 1.

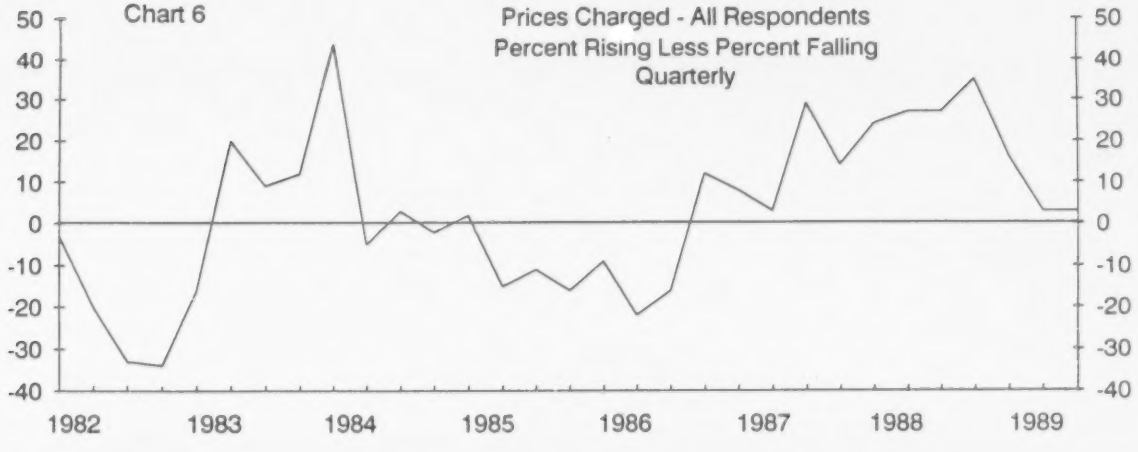
	Percent of Exporters Whose Exports are:			
Survey Month	Rising	Staying the Same	Falling	Net Rising
Dec. '89	52.3%	36.4%	11.4%	40.9%
Sep. '89	44.4	46.7	8.9	35.6
Jun. '89	52.1	33.3	14.6	37.5

Prices and Costs

The inflation picture continued to improve in the 4th quarter but the rate of improvement slowed compared with the two previous surveys. The net rising percent inched downward to 3.1%, its lowest level in over two years. See Chart 6. In the goods producing sector almost one-quarter of the sample said that their firms' prices were falling.

Percentage Reporting Their Prices are:

Survey Month	Increasing	Unchanged	Falling	Net Rising
Dec. '89	21.3%	60.6%	18.1%	3.1%
Sep. '89	19.5	64.2	16.3	3.3
Jun. '89	31.6	53.0	15.4	16.2



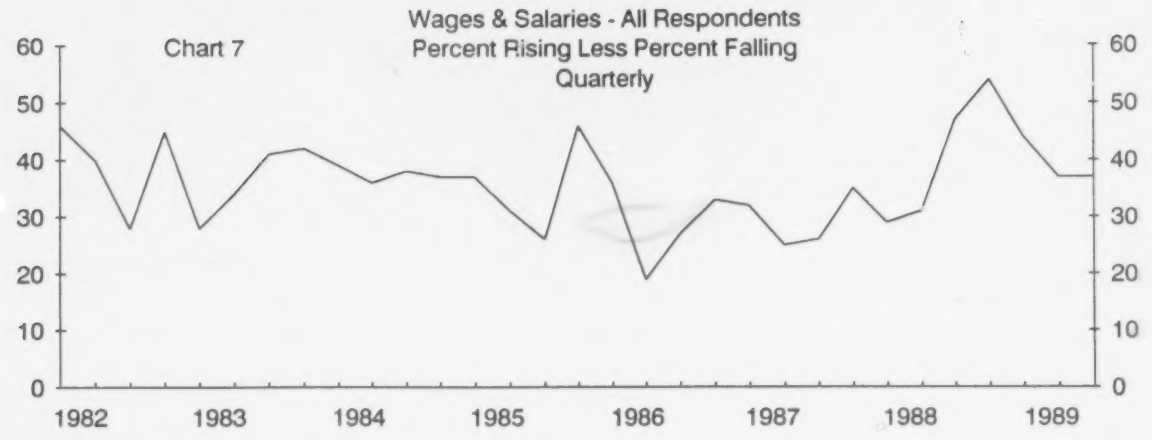
Cost inflation also slowed in Q4, but not so dramatically as it did during the previous survey. Less than 35% of our survey sample reported rising prices of input materials, down from 39% last quarter. The Net Rising Index fell another six-and-a-half points on top of the 28 point decline of the 3rd quarter. It is worth noting that in the Manufacturing sector nearly one-third of our panelists are now reporting declining materials prices. The Net Rising Index for manufacturers' materials costs plunged from 88% in Q1 to -14% in Q4. Wages and salaries growth essentially stabilized during the fourth period. See Chart 7.

Percent Reporting that Material Costs are:

Survey Month	Rising	Unchanged	Falling	Net Rising
Dec. '89	34.6	46.9%	18.5%	16.0%
Sep. '89	38.8	45.0	16.3	22.5
Jun. '89	60.0	30.6	9.4	50.6

Percentage Reporting Wages & Salaries are:

Survey Month	Rising	Unchanged	Falling	Net Rising
Dec. '89	39.2%	58.4%	2.4	36.8%
Sep. '89	39.7	57.9	2.5	37.2
Jun. '89	44.9	54.2	0.8	44.1



Shortages

There was a slight increase in reported labor shortages in the December survey, but materials shortages eased to near insignificance. Overall, very little change.

Percent Reporting Shortages in Survey Month:

Type of Input	March	June	September	December
Skilled Labor	31.0%	27.1%	27.9%	30.0%
Unskilled Labor	9.7	13.1	7.2	11.8
Intermediate Inputs	12.4	10.3	6.3	2.7
Raw Material Inputs	9.7	5.6	7.2	4.5
Capital Goods	2.7	4.7	1.8	2.7
No Shortages	52.2	59.8	62.2	59.1

Profits

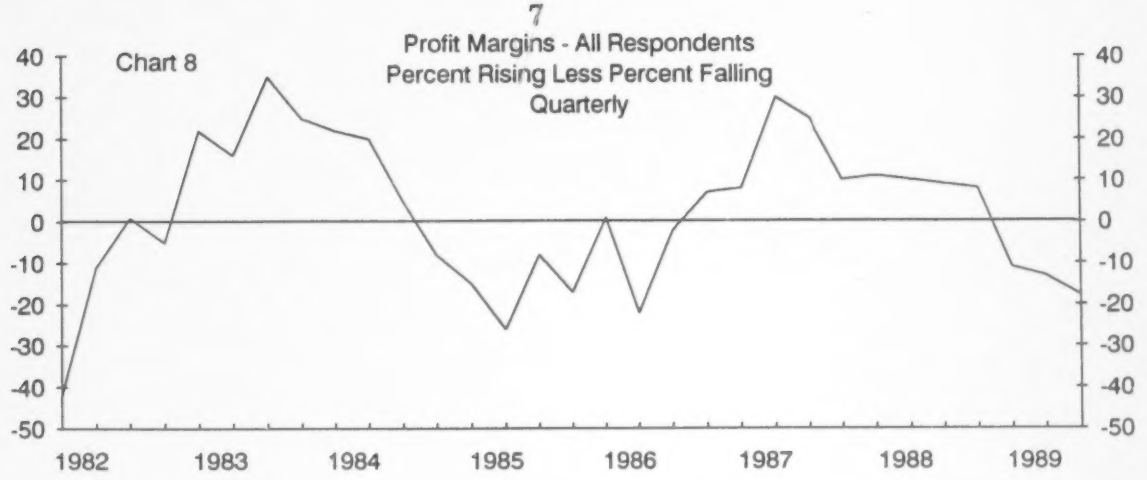
Profit margins fell again during Q4, and the rate of decline accelerated. See Chart 8. The percent of respondents reporting rising profit margins (21.0%) was the smallest since Q2, 1982. Once again the goods producing sector took the biggest hit. Well over half of the respondents reported falling profit margins, and the Net Rising Index fell to -41.0% from -28.9% last September. See Chart 9. The other two sectors also showed some profit deterioration.

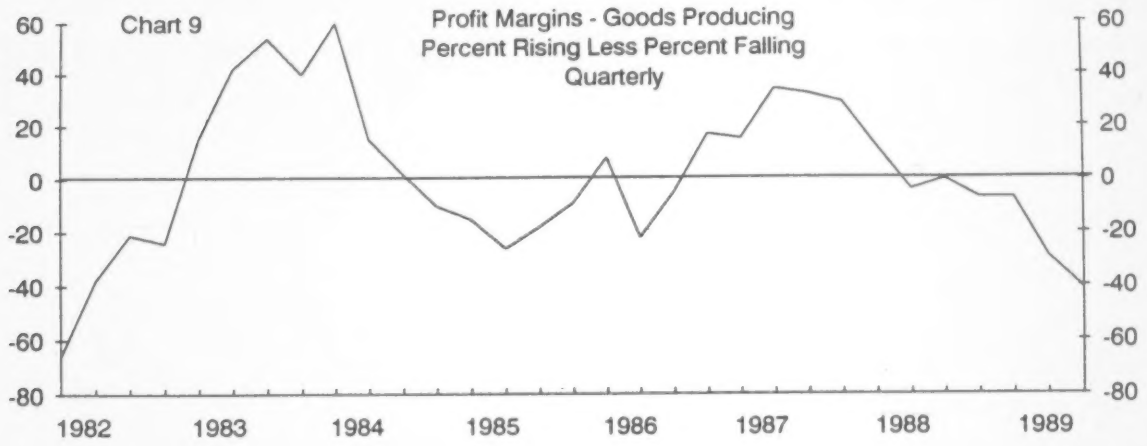
Percent of all Respondents Reporting that Margins are:

Survey Month	Rising	Unchanged	Falling	Net Rising
Dec. '89	21.0	40.3%	38.7%	-17.7%
Sep. '89	23.5	40.3	36.1	-12.6
Jun. '89	23.1	42.7	34.2	-11.1

Percent Reporting that Profit Margins are:

Sector	Rising	Unchanged	Falling	Net Rising
Total	21.0%	40.3%	38.7%	-17.7%
Goods-Producing	20.5	17.9	61.5	-41.0
TUC	16.7	63.3	20.0	-3.3
Financial Services	26.5	38.2	35.3	-8.8





Looking Ahead

For the second year in a row Special Questions in the December Survey asked panelists about their companies' plans or budgets for the coming year. Nearly all firms in our sample (96%) had put together a fiscal plan or budget for 1990. The remaining questions in the survey asked about these plans.

1990 Planning Scenario: We first asked what economic scenario firms were using to plan for 1990. The choices ranged from severe recession to above trend real growth. As it turns out, there was only one vote for severe recession and only two votes for the near term boom. Among the remaining choices the outlooks ranked as follows:

Sector	Moderate Growth	Brief Slowdown/ Resume Normal Growth	Prolonged Period of Sluggish Growth	Mild Recession
Total	11.4%	33.3%	41.5%	11.4%
Goods-Producing	4.9	31.7	51.2	9.8
TUC	19.4	45.2	25.8	9.7
Financial Services	12.5	18.8	50.0	15.6

Note: These may not add across to 100% because of the three outlying votes mentioned above. These results appear generally consistent with the latest NABE Macroeconomic Forecast Survey.

Firms' Growth Expectations: Panelists were then asked if their companies were planning for higher, lower or essentially the same levels of sales volume, profits, employment and capital spending in 1990 compared with 1989. Results are summarized in the following table.

Percent of all respondents reporting that 1990 plans for key variables are:

Key Variable	Higher	Same	Lower
Sales Volume	66.1%	18.5%	15.3%
Profits	56.7	22.5	20.8
Employment	23.5	42.0	34.5
Capital Spending	42.3	31.5	26.1

Two-thirds of all respondents are looking for sales gains this year. A year ago that number was three-fourths. Almost one-fourth are expecting employment gains, down from 35% last year. And 42% are planning for more capital spending vs 53% a year ago. (Sorry, we didn't ask about profits in December '88).

For what it's worth, the following table compares the "optimism index" (the % of firms expecting higher sales volume, etc.) across industry sectors.

Percent of responding firms that expect 1990 growth in:

	Sales Volume	Profits	Employment	Capital Spending
Goods-Producing	57.1%	48.8%	17.1%	52.5%
TUC	71.0	40.0	22.6	46.2
Financial Servoces	71.9	81.3	30.0	32.1

Finally, our panel members were asked to critique their firms' 1990 sales plans. Most (70.4%) said that in their professional judgment, their company's sales plan was "about right". But nearly one-quarter (24.3%) thought that the plan was too ambitious. Only 5.2% believed it was too low.

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NABE Industry Survey

AUGUST, 1990

This report presents the responses to NABE's latest business conditions survey conducted in July. This survey is one of three taken by NABE; the other inquiries are the NABE Outlook and the NABE Policy Survey. For NABE membership information contact the address below.

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Highlights

* Demand growth decelerated again in the second quarter, but it looks like it may be stabilizing after three years of slowing.
* Capital spending grew at the slowest pace since 1987. Most of the weakness, however, was concentrated in the Financial Services Sector. Goods Producers maintain a healthy rate of investment spending.
* Inventories - still no problem.
* Exports remain a powerful growth force.
* Inflation pressures eased slightly - both costs and prices.
* Profit margins continued down.
* A U.S.-Mexican Free Trade Agreement can't happen soon enough for the vast majority of our members who engage in cross-border trade.

Unit Demand

Demand growth slowed again in the second quarter, as the Net Rising Index fell eight points. The Index has been fluctuating in a fairly narrow band for the past five periods. Of all respondents, 39.4% reported rising unit demand, nearly the same as last time. Demand fell at 25.7% of our panelists' firms, up from 17.8% in Q1. The Net Rising Index (percent rising minus percent falling) fell back to 13.8% from 22.0%. Chart 1 reveals that while unit demand growth had been decelerating since mid-1987, it has shown signs of stabilizing over the past year or so.

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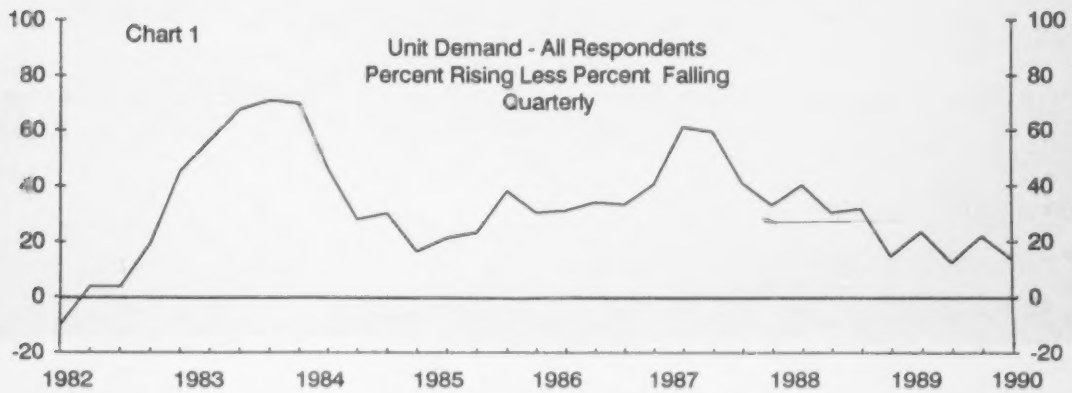
Demand growth decelerated in the goods producing sector and among financial services companies during Q2. But it picked up nicely within the transportation utilities and communications (TUC) sector. The Net Rising Index for the TUC sector jumped more than 20 points between the first and second quarters. More than 60% of respondents from these industries are now reporting rising demand. The percentage of goods producers who said demand was rising climbed slightly during Q2, but those reporting falling demand jumped even more. The result was an 8 point drop in the Net Rising Index. See Chart 2. Financial services remains the weakest of the three sectors in terms of unit demand growth.

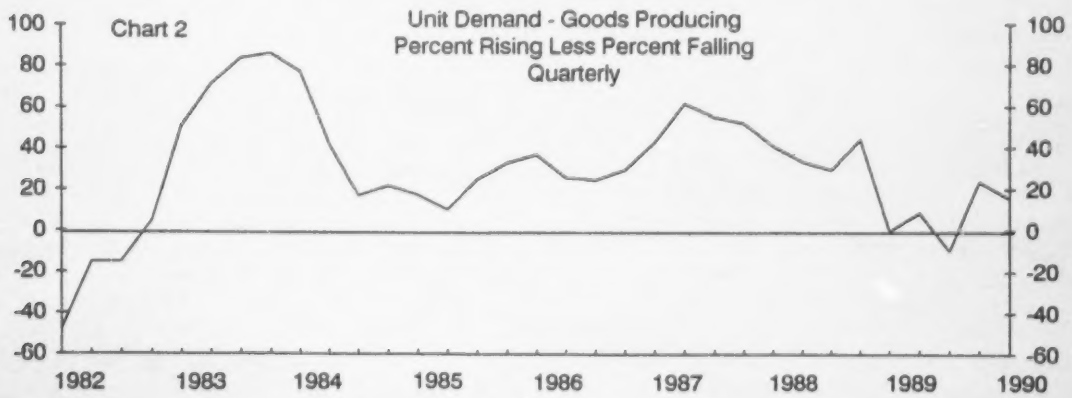
Percent of Total Sample Reporting that Demand is:

Survey Month	Rising	Staying the Same	Falling	Net Rising
July '90	39.4%	34.9% 25.7%	13.8%	
March '90	39.8	42.4	17.8	22.0
December '89	39.8	32.8	27.3	12.5

Percent Reporting that Demand is:

Sector	Rising	Staying the Same	Falling	Net Rising
Total	39.4%	34.9%	25.7%	13.8
Goods-Producing	36.8	42.1	21.1	15.8
TUC	60.9	21.7	17.4	43.5
Financial Services	32.4	35.3	32.4	0.0

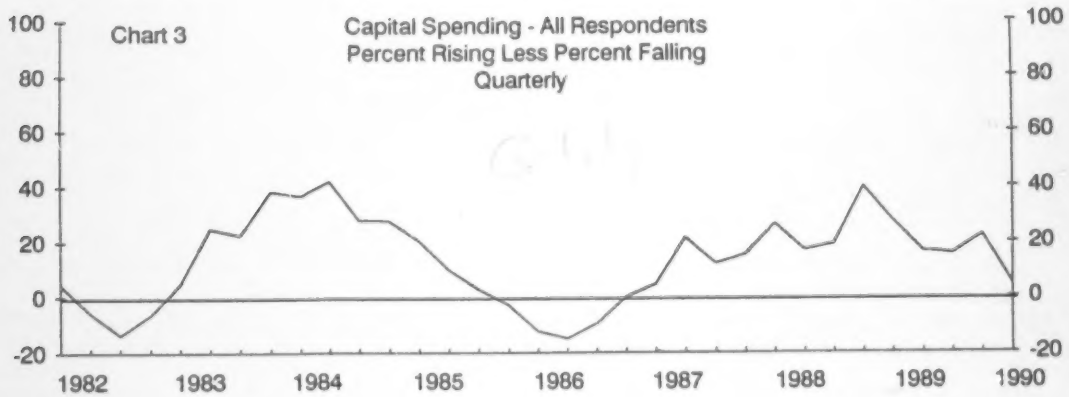




Capital Spending

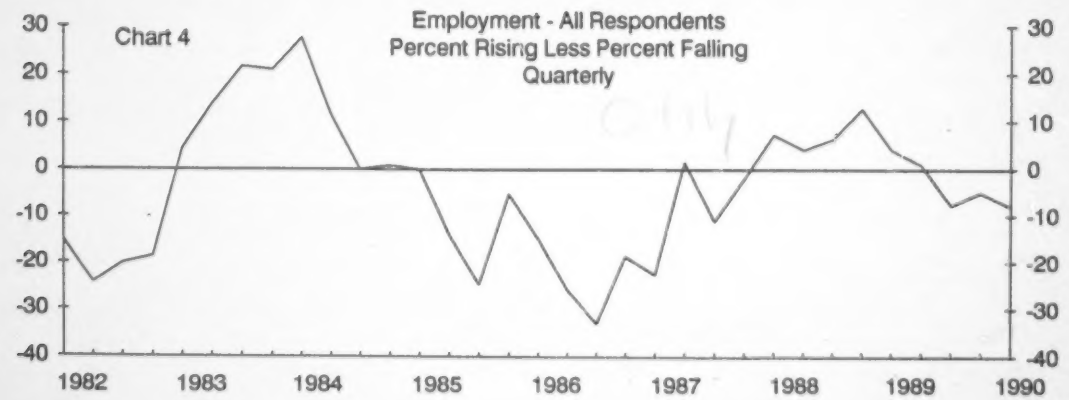
Capital spending growth at member companies decelerated in the second quarter to the slowest pace in three years. Less than one-quarter of all respondents reported increased expenditures, while 18% said spending was down. The majority continue to report relatively constant levels of investment spending. The Net Rising Index dropped nearly 18 points to 4.7%. See Chart 3. In the Goods Producing Sector the Net Rising Index eased to 25.7% from 31.4% in the first quarter. It should be noted that 42% of our manufacturing members are still reporting rising capital spending.

	Percent Reporting that Real Capital Spending is:			
Survey Month	Rising	Staying the Same	Falling	Net Rising
July '90	22.6%	59.4%	17.9%	4.7%
March '90	35.1	52.3	12.6	22.5
December '89	32.0	51.6	16.4	15.6



Employment

Employment declined again during the second quarter of 1990. It was the third drop in a row and once more it happened in all three industry sectors. Nearly half of responding companies (48.6%) are still reporting stable employment levels. The Net Rising Index (percent rising minus percent falling) fell slightly to -8.1%. See Chart 4.



Inventories

Satisfaction with current inventory levels didn't change much in the second quarter. Of all our respondents, 59.6% said that stock levels were "about right". Exactly the same as in the previous survey. The other 40.4%, who were not happy with current levels, split as follows: 32.7% said stocks were too high while 7.7% said they were too low. Chart 5 shows that goods producers reverted to a very slight inventory building mode during the past quarter as the Net Rising Index rose to 5.7%. Overall, inventory policies and stock levels themselves remain quite stable.

Export Performance

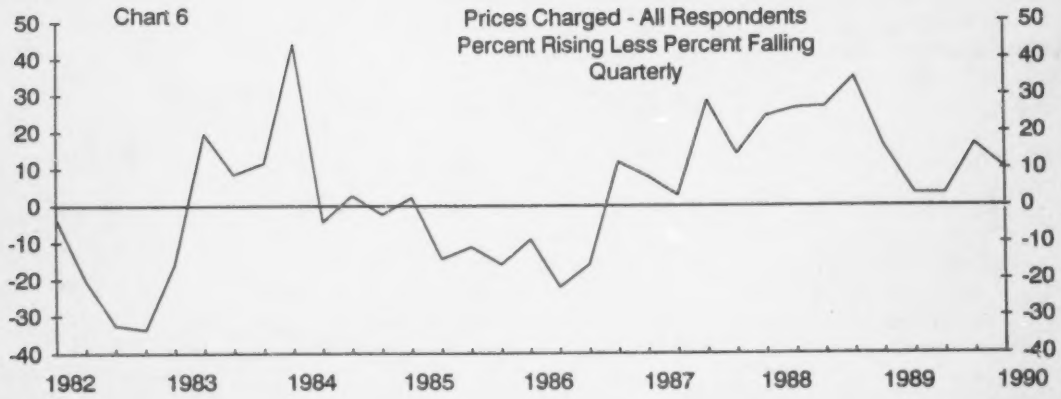
Not all of our respondents' firms export, but for those that do, exports either rose or remained constant during the past three months. It was the first time since we began asking this question that there were no reports of declining exports. International business remains a clear source of economic strength.

	Percentage of Exporters Whose Exports are:			
Survey Month	Rising	Staying the Same	Falling	Net Rising
July '90	43.9%	56.1%	0.0%	43.9%
March '90	45.9	45.9	8.1	37.8
December '89	52.3	36.4	11.4	40.9

Prices and Costs

After deteriorating in the first quarter, the inflation picture improved a bit in Q2 as a smaller number of respondents reported that their firms were raising prices. The Net Rising Percent dropped back to 10.2%. See chart 6. Of the 23% reporting price increases, only one-third said that the increases had accelerated. This is down sharply from over 60% who reported accelerating price increases last time.

	Percentage Reporting Their Prices are:			
Survey Month	Increasing	Unchanged	Falling	Net Rising
July '90	23.1%	63.9%	13.0%	10.2%
March '90	29.4	58.0	12.6	16.8
December '89	21.3	60.6	18.1	3.1



The cost inflation picture was mixed in Q2. While fewer respondents reported that materials prices were rising, fewer also said that they were falling. The Net Rising Index barely moved at all. There was more improvement in "people costs" as wages and salaries growth decelerated sharply in the second period. The Net Rising Index fell 10 points to 39.0%. See Chart 7.

Percent Reporting that Material Costs are:

Survey Month	Rising	Unchanged	Falling	Net Rising
July '90	32.4%	54.4%	13.2%	19.1%
March '90	36.0	46.7	17.3	18.7
December '89	34.6	46.9	18.5	16.0

Percent Reporting Wages & Salaries:

Survey Month	Rising	Unchanged	Falling	Net Rising
July '90	40.0%	59.0%	1.0%	39.0%
March '90	50.0	49.1	0.9	49.1
December '89	39.2	58.4	2.4	36.8

Shortages

Reports of capital goods and materials shortages remain minimal. Skilled labor tightness remains the only category of significance. Overall, very little change.

Percent Reporting Shortages in Survey Month:

Type of Input	Sep.'89	Dec.'89	Mar.'90	Jul.'90
Skilled Labor	27.9%	30.0%	28.8%	28.9%
Unskilled Labor	7.2	11.8	8.7	7.2
Intermediate Inputs	6.3	2.7	2.9	6.2
Raw Material Inputs	7.2	4.5	3.8	3.1
Capital Goods	1.8	2.7	1.9	0.0
No Shortages	62.2	59.1	59.6	61.9

Profits

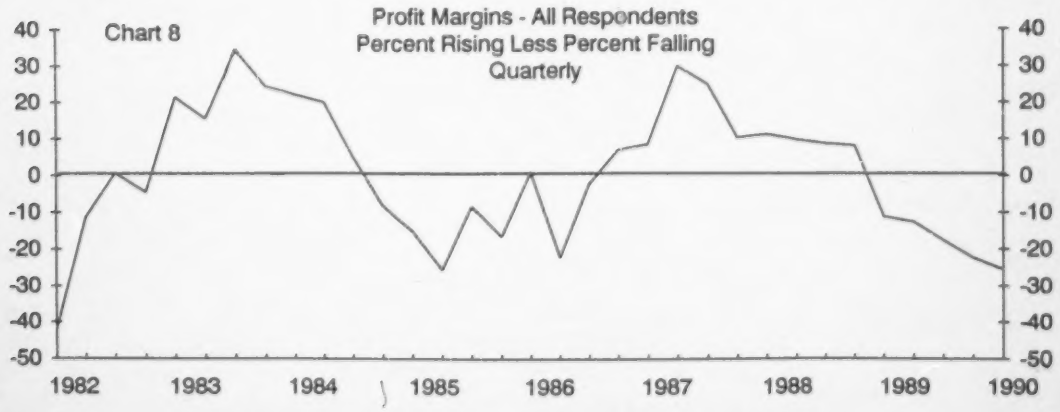
Profit margins fell again during Q2, and the rate of decline accelerated. See Chart 8. The percent of respondents reporting rising profit margins (15.1%) was the smallest in the eight year history of the survey. Profit margins continued to fall fastest in the Goods Producing sector, but at least the rate of decline decelerated slightly again in Q2. The Net Rising Index for goods producers edged upward from -37.8% to -36.1%. See Chart 9. In the other two sectors the rate of decline got worse.

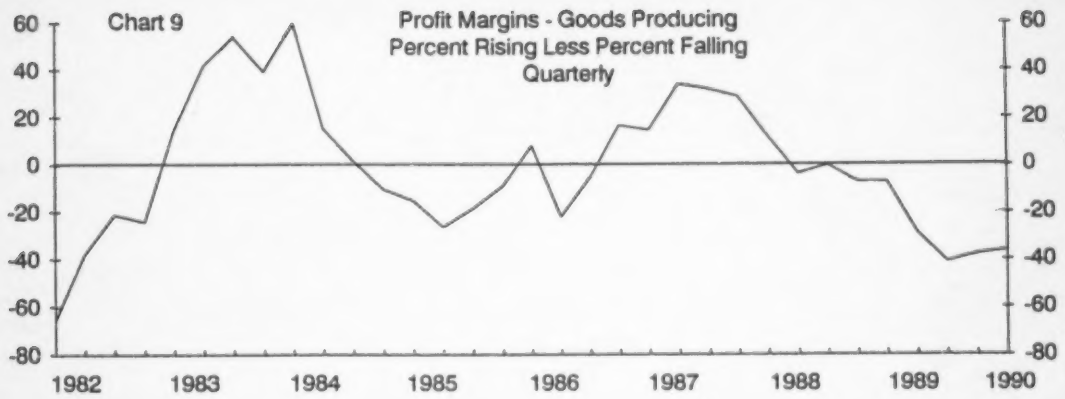
Percent of all Respondents Reporting that Margins are:

Survey Month	Rising	Unchanged	Falling	Net Rising
July '90	15.1%	44.3%	40.6%	-25.5%
March '90	16.4	44.8	38.8	-22.4
December '89	21.0	40.3	38.7	-17.7

Percent Reporting that Profit Margins are:

Sector	Rising	Unchanged	Falling	Net Rising
Total	15.1%	44.3%	40.6%	-25.5%
Goods-Producing	11.1	41.7	47.2	-36.1
TUC	19.0	42.9	38.1	-19.0
Financial Services	16.7	47.2	36.1	-19.4





Special Questions

Special questions in the July survey were all about the prospective U.S.-Mexican Free Trade Agreement. Our panelists overwhelmingly support the idea. We first asked simply, "Do you favor such an agreement?" Ninety-five percent said "yes". Five percent said "no".

We next asked whether our panelists' firms currently engage in cross-border trade with Mexico (other than intra-firm maquiladora activity). While a majority (63%) of all respondents reported no trade with Mexico, the results were vastly different among the sectors. As the following table shows, nearly 80% of our goods producing members' firms are currently trading with Mexico.

		----------Sector----------		
	Total	Goods Producing	Transport. Utilities & Comm.	Financial Services
No trade	63.1%	21.1%	82.6%	88.9%
Two-way Trade	18.9	36.8	17.4	5.6
Primarily Exports	13.5	34.2	0.0	5.6
Primarily Imports	4.5	7.9	0.0	0.0

Those whose firms do trade with Mexico were then asked if their companies currently have operations in Mexico. Over 70% responded affirmatively. More than 51% of these firms have sales/marketing operations in Mexico. Over 46% have manufacturing sites. And 12% engage in other activities. (Multiple answers were permitted).

Those firms with Mexican operations were asked what impact they thought a US-Mexican Free Trade Agreement (FTA) would have on their companies. Possible responses ranged from "Strongly Positive" to "Strongly Negative". As it turned out, there were no negative responses at all. Not quite 7% thought the FTA would have a neutral impact. More than 65% thought it would be somewhat positive and nearly 28% look for a strongly positive impact.

Finally, we asked those panelists whose firms do not currently do business with Mexico if the elimination of trade barriers would cause their firm to reevaluate Mexico as a potential market. Half couldn't or didn't answer the question, but of those that did, fully half said that their firms would reevaluate.

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NABE Industry Survey

October, 1990

This report presents the responses to NABE's latest business conditions survey conducted in September. This survey is one of three taken by NABE; the other inquiries are the NABE Outlook and the NABE Policy Survey. For NABE membership information contact the address below.

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Highlights

* Demand growth in the third quarter fell to the lowest level since the end of the last recession.
* The capital spending outlook improved slightly during the third quarter, yet remains well below levels experienced over the past four years.
* Employment remained stagnant.
* Inventories pose no immediate problem.
* Recent export performance has declined; a disconcerting development for those expecting growth to be sustained here.
* Inflation was a mixed bag during Q3 - prices charged have moderated; material costs exploded; wages and salaries were flat.
* Profit margins continue to contract.
* Current sales performance has matched or is above previous expectations at the majority of respondent firms. Profitability is below expectations.
* Forty-four percent of members surveyed expect a recession to occur by yearend 1991.
* A majority of respondents feel that business prospects for 1991 have worsened as a result of the Persian Gulf Crisis, but a surprising 34% feel it will have no impact.

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Unit Demand

Demand growth slowed substantially in the third quarter, as the Net Rising Index fell fifteen points. The Index had been fluctuating in a narrow band recently, and the recent deceleration represents the first negative value since the end of the last recession. Of all respondents, 32.4% reported rising unit demand, seven points below last time. Demand fell at 33.3% of our panelists firms, up from 25.7% in Q2. The Net Rising Index (percent rising minus percent falling) fell to -1.0% from 13.8%. Chart 1 shows that, while unit demand growth had been decelerating since mid-1987, the pace of deceleration picked up substantially during the third quarter.

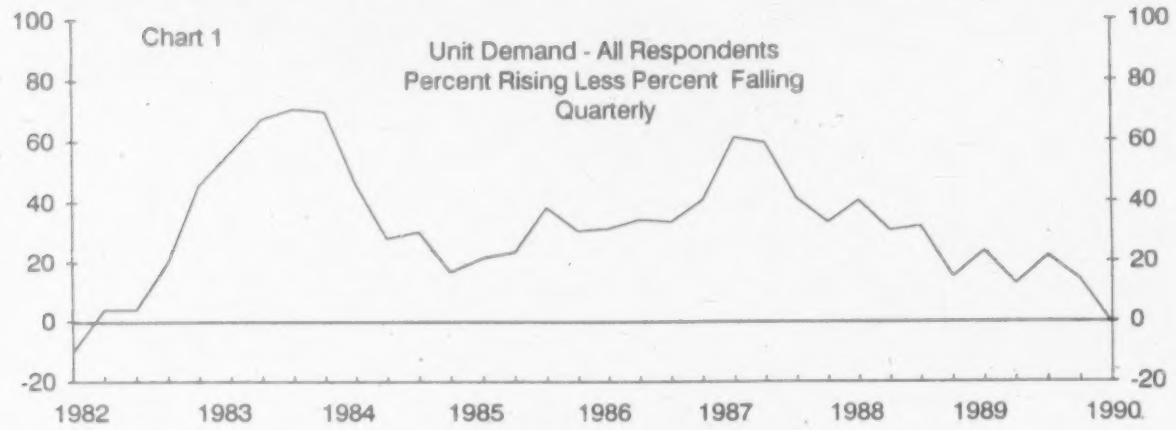
Demand growth decelerated in all three industry groupings. The percentage of goods producers that said demand was rising fell by 18 points during the quarter, and those saying that demand was falling increased by 25 points. The result was a 43 point drop in the Net Rising Index for the goods-producing sector to -27.0, a level not seen since 1982 (Chart 2). Indices for the transportation, utilities, and communications and financial services sectors also fell substantially. The goods-producing sector has replaced financial services as the weakest in terms of unit demand.

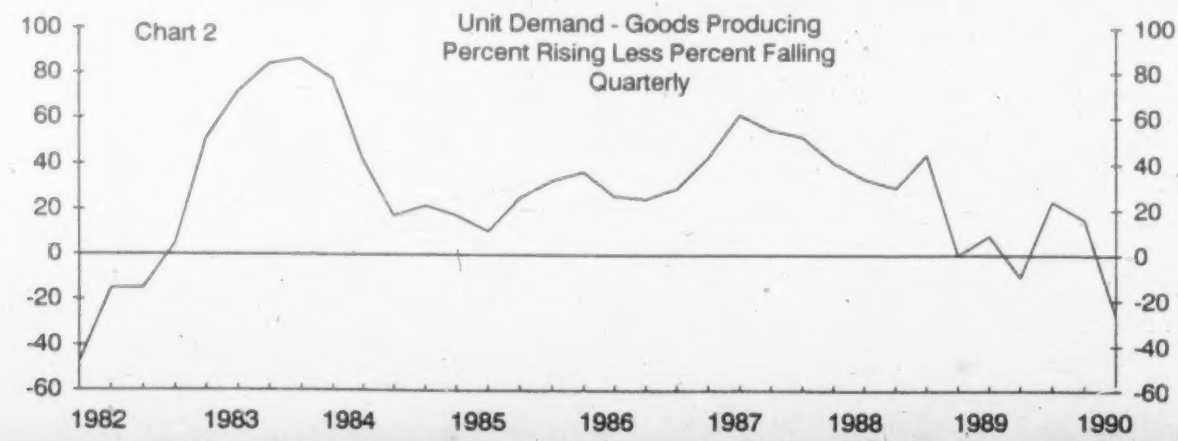
Percent of Total Sample Reporting that Demand is:

Survey Month	Rising	Staying the Same	Falling	Net Rising
September '90	32.4%	34.3%	33.3%	-1.0%
July '90	39.4	34.9	25.7	13.8
March '90	39.8	42.4	17.8	22.0

Percent Reporting that Demand is:

Sector	Rising	Staying the Same	Falling	Net Rising
Total	32.4%	34.3%	33.3%	-1.0%
Goods-Producing	18.9	35.1	45.9	-27.0
TUC	46.4	32.1	21.4	25.0
Financial Services	28.0	36.0	36.0	-8.0





Capital Spending

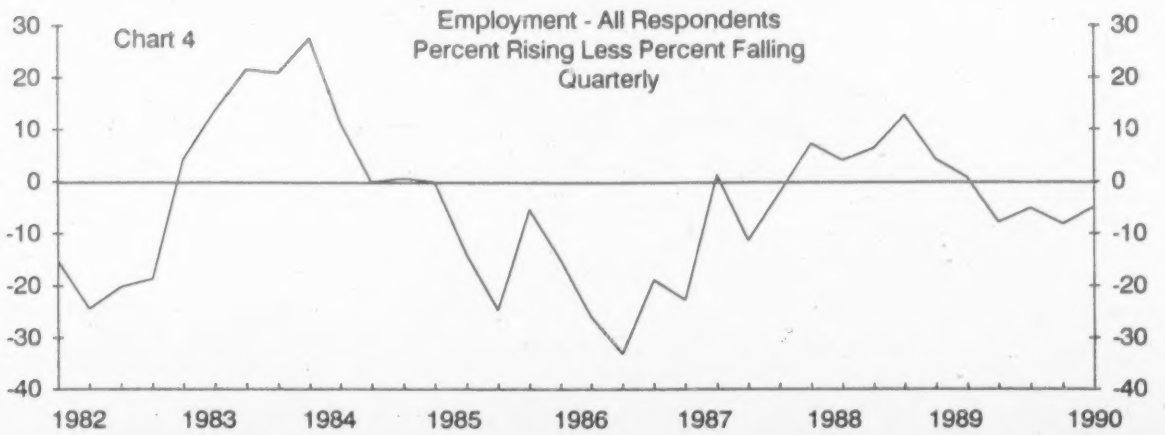
Despite the sharp falloff in unit demand, capital spending growth at member companies accelerated slightly during the third quarter. Over 28% of all respondents reported increased expenditures, while about 22% said spending was down. The majority still continues to report relatively constant levels of investment spending. The Net Rising Index increased by a scant 1.4 points during Q3 to 6.1% (Chart 3). In the goods-producing sector, the Net Rising Index fell sharply to 5.9% from 25.7% in Q2. This large decline was more than off-set by a sharp turnaround in the Net Rising Index for financial services, up from -20.6% in Q2 to its present reading of 27.3%. Despite the decline in the goods-producing index, over 82% of our manufacturing members are reporting constant or rising capital expenditures.

Percent Reporting that Real Capital Spending is:

Survey Month	Rising	Staying the Same	Falling	Net Rising
September '90	28.3%	49.5%	22.2%	6.1%
July '90	22.6	59.4	17.9	4.7
March '90	35.1	52.3	12.6	22.5

Employment

Employment improved slightly during the third quarter, in total and across all three industry groupings. Over half of responding companies (54.8%) are still reporting stable employment levels. Even so, the Net Rising Index remains negative at -4.8%, up from -8.1% in Q2 (Chart 4), an indication that employment plans are anything but robust.



Inventories

Overall satisfaction with inventory levels *hasn't changed much* over the past quarter. Of all respondents, 58.3% said that stock levels were "about right", down slightly from the Q2 reading of 59.6%. For the 41.7% who were unhappy with current levels, 37.5% said stocks were too high, and 4.2% felt stocks were low. Chart 5 points out that goods producers continued to build inventories during the third quarter as the Net Rising Index rose to 13.8% from 5.7% in Q2.

Export Performance

The vast majority of respondent firms do not export, but for those that do, a *growing number report falling exports.* In the second quarter, the Net Rising Index stood at 43.9% with no firms reporting falling exports. The Index fell to 13.9% during Q3, as reports of rising exports fell and falling exports increased. For those of us looking to exports as one of the few positives for future U.S. economic growth, *this apparent reversal is disconcerting.*

Percentage of Exporters Whose Exports are:

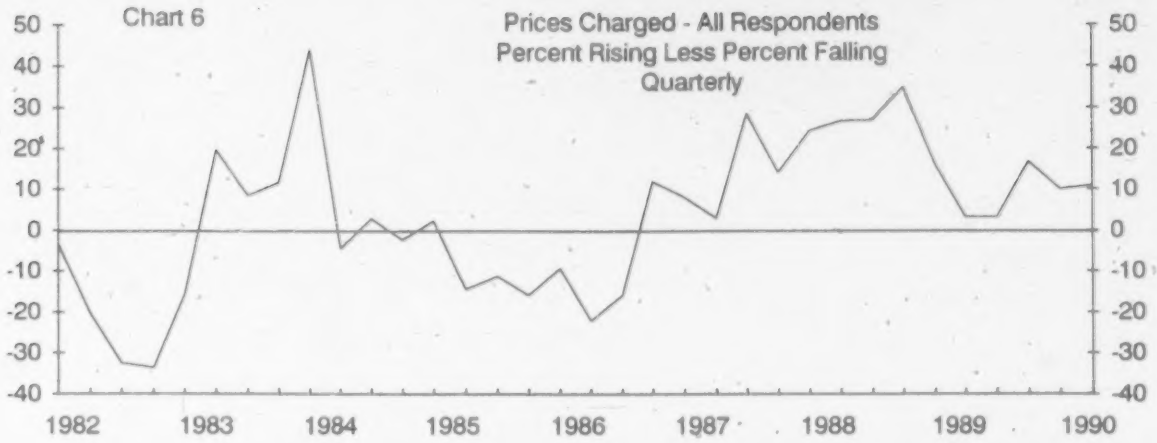
Survey Month	Rising	Staying the Same	Falling	Net Rising
September '90	30.6%	52.8%	16.7%	13.9%
July '90	43.9	56.1	0.0	43.9
March '90	45.9	45.9	8.1	37.8

Prices and Costs

From a product price standpoint, the inflation picture moderated during the third quarter as the Net Rising Index bumped up slightly to 11.0% (Chart 6). Of the 23.0% reporting price increases, 50% said that prices had accelerated during the third quarter. This was a sharp increase from the 33.3% reporting acceleration in Q2.

Percentage Reporting Their Prices are:

Survey Month	Increasing	Unchanged	Falling	Net Rising
September '90	23.0%	65.0%	12.0%	11.0%
July '90	23.1	63.9	13.0	10.2
March '90	29.4	58.0	12.6	16.8



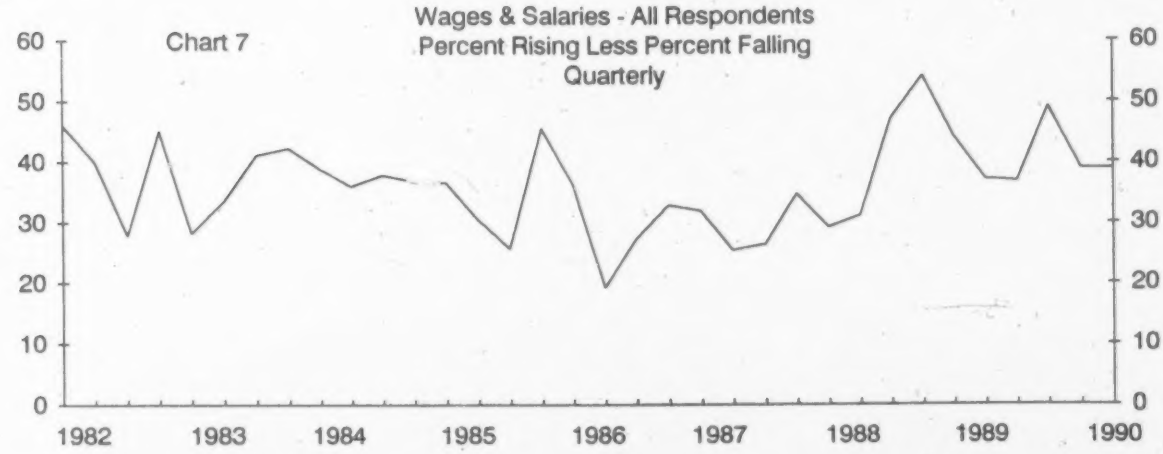
On the material cost side, the inflation picture darkened rather dramatically during Q3. The Net Rising Index climbed to 50.7% from 19.1% in Q2, as those reporting rising material costs rose to 53.7% and those reporting falling costs fell to 3.0%. Recent changes in "people costs" helped to moderate this ominous trend. The Net Rising Index for wage and salary growth remained at 39%. (Chart 7)

Percent Reporting that Material Costs are:

Survey Month	Rising	Unchanged	Falling	Net Rising
September '90	53.7%	43.3%	3.0%	50.7%
July '90	32.4	54.4	13.2	19.1
March '90	36.0	46.7	17.3	18.7

Percent Reporting Wages & Salaries:

Survey Month	Rising	Unchanged	Falling	Net Rising
September '90	40.0%	59.0%	1.0%	39.0%
July '90	40.0	59.0	1.0	39.0
March '90	50.0	49.1	0.9	49.1



Shortages

Reports of capital goods and materials shortages remain minimal. Skilled labor tightness remains the only category of significance. *Overall, changes are insignificant.*

Percent Reporting Shortages in Survey Month:

Type of Input	Dec.'89	Mar.'90	Jul.'90	Sep.'90
Skilled Labor	30.0%	28.8%	28.9%	24.7%
Unskilled Labor	11.8	8.7	7.2	6.7
Intermediate Inputs	2.7	2.9	6.2	1.1
Raw Material Inputs	4.5	3.8	3.1	6.7
Capital Goods	2.7	1.9	0.0	2.2
No Shortages	59.1	59.6	61.9	64.0

Profits

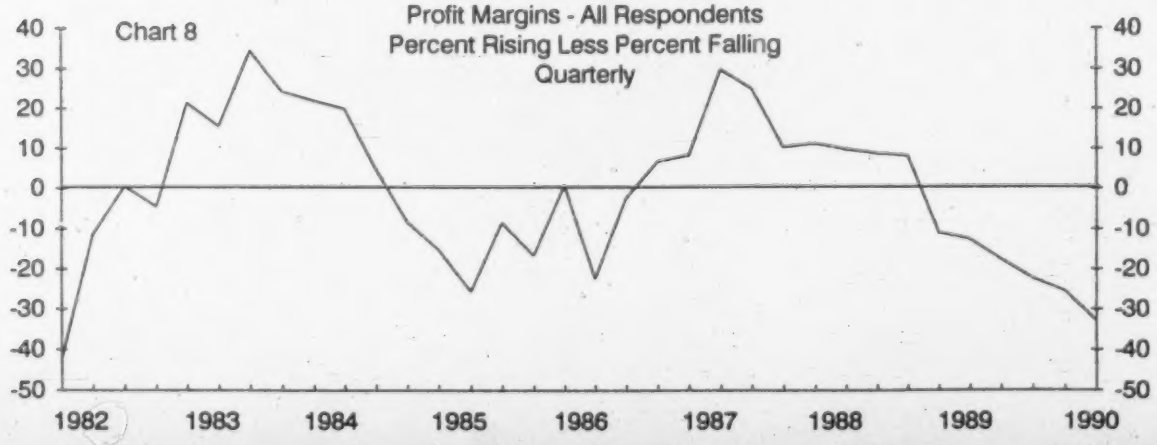
Profit margins fell again during Q3, and the rate of decline accelerated (Chart 8). While the percentage reporting rising profitability increased to 16.5%, reports of falling profits jumped to 49.5%. As a result, the Net Rising Index fell to -33.0%, its lowest reading since 1982. Financial services overtook goods producers as the sector with the fastest falling profitability, -45.8% vs. -44.4%, respectively. Even so, margins in the goods-producing sector have been declining consistently over the past three years (Chart 9).

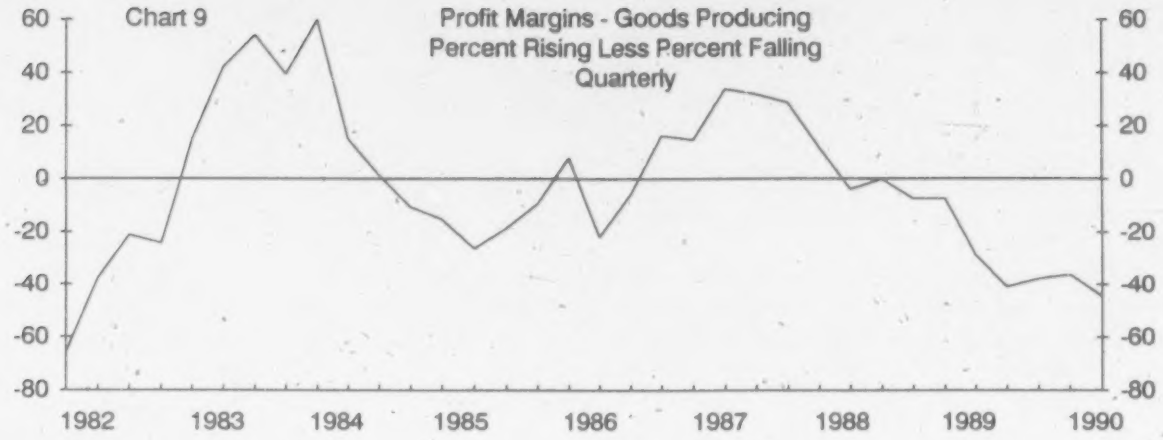
Percent of all Respondents Reporting that Margins are:

Survey Month	Rising	Unchanged	Falling	Net Rising
September '90	16.5%	34.0%	49.5%	-33.0%
July '90	15.1	44.3	40.6	-25.5
March '90	16.4	44.8	38.8	-22.4

Percent Reporting that Profit Margins are:

Sector	Rising	Unchanged	Falling	Net Rising
Total	16.5%	34.0%	49.5%	-33.0%
Goods-Producing	16.7	22.2	61.1	-44.4
TUC	14.3	46.4	39.3	-25.0
Financial Services	8.3	37.5	54.2	-45.8





Special Questions

Three special questions in the September survey centered on current business performance and future expectations. *The first question* asked panelists to compare 1990 year-to-date financial performance to earlier expectations. *Current sales* performance was equal to or above previous expectations for over 55% of respondents. However, the distribution of responses varies substantially by sector, with goods producers generally performing below expectations. *Profit performance* fell below expectations for the majority of respondents (58.7%), as almost two-thirds of respondents in the goods-producing and financial services sectors are experiencing sub-par profitability.

		Sector		
Sales Expectations	Total	Goods Producing	Transport. Utilities & Comm.	Financial Services
Above	25.3%	22.3%	28.6%	16.7%
Equal to	30.1	22.2	39.3	33.3
Below	44.6	55.5	32.1	50.0

		Sector		
Profit Expectations	Total	Goods Producing	Transport. Utilities & Comm.	Financial Services
Above	16.3%	13.9%	17.9%	12.0%
Equal to	25.0	22.2	32.1	24.0
Below	58.7	63.9	50.0	64.0

A second question asked our panel to describe the *economic scenario underlying business plans through 1991.* In general, almost 44% of respondents expected some type of recession. Goods producers were more pessimistic, as almost 56% foresee a business downturn. Less than 7% of all firms see reacceleration anytime soon.

Growth Expectations	Total	Sector: Goods Producing	Sector: Transport. Utilities & Comm.	Sector: Financial Services
Ave. or Severe Recession	8.7%	5.6%	3.6%	20.8%
Mild Recession	35.0	50.0	25.0	29.2
Sluggish Growth	49.4	36.1	60.6	45.8
Gradual Reacceleration	4.9	8.3	3.6	4.2
Other	2.0	0.0	7.2	0.0

The last question asked for inputs regarding the impact that Persian Gulf Crisis has had on key performance measures at respondent firms. A majority (54.4%) feels that business prospects for 1991 have worsened as a result of the conflict. Even so, a surprising 34% expected no impact.

Business Prospects	Total	Persian Gulf Impact on: Transport. Goods Producing	Utilities & Comm.	Financial Services
Improved	11.7%	11.1%	14.8%	12.0%
Worsened	54.4	55.6	59.3	52.0
Little Impact	34.0	33.3	25.9	36.0

The extent to which this turnaround has affected key variables is summarized below.

	Persian Gulf Impact on: Increase	Reduce	Little or No Impact
Sales Volume	13.6%	53.4%	33.0%
Product Prices	41.7	10.4	47.9
Export Prices	23.1	6.2	70.7
Energy Prices	85.6	1.1	13.3
Material Costs	67.8	0.0	32.2
People Costs	15.6	5.2	79.2
Market Share	14.1	7.1	78.8

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